SASKATCHEWAN FOREST PRODUCTS CORPORATION

ANNUAL REPORT 1991

92-05646/

47th ANNUAL REPORT
SASKATCHEWAN FOREST PRODUCTS CORPORATION
YEAR ENDED OCTOBER 31, 1991

Regina, Saskatchewan
February 14, 1992

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the annual report of the Saskatchewan Forest Products Corporation for the year ended October 31. 1991 including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporation Act, 1978.

I have the honour to be, Madam.

Your obedient servant,

Darrel Cunningham
Minister Responsible for the
Saskatchewan Forest Products
Corporation

Honourable Darrel Cunningham, Chairman of the Board

Honourable Ed Tchorzewski

Honourable Bernard Wiens

SECRETARY TO THE BOARD

Mr. Robert B. Emigh, Saskatoon

CORPORATION OFFICERS AND MANAGEMENT

Mr. Dale Vizina	General Manager
Mr. Fred Hachey	Controller
Mr. Dale Vizina	Woodlands Manager
Mr. Henry A. Peters	Marketing Manager

DIVISION MANAGEMENT

Mr. Roland St. Louis	Manager, Carrot River Sawmill
Mr. Lenard Pelletier	Manager, Hudson Bay Plywood Plant

Report of the General Manager

Introduction

Economic conditions in Canada and the USA continued to be very weak during 1991, with markets and prices for wood products very depressed. The same conditions were experienced in 1990 and once again led to curtailments in production for the Forest Industry in general. The plywood and lumber operations were plagued with poor marketing conditons through out the year with the exception of a short period in the latter half of the second quarter. Once again, several mills in Western Canada discontinued operations with permanent closures.

The Corporate operations consist of one softwood plywood mill located at Hudson Bay and a softwood dimensional sawmill at Carrot River, Saskatchewan. Both mills operated at full capacity during the year with curtailments at the sawmill for short periods due to maintenance requirements. All residue material from both operations was shipped to the Weyerhaeuser Pulpmill in Prince Albert, Saskatchewan insuring very high utilization of the harvested Forest Resource.

The Corporation has completed a detailed site assessment which has characterized the nature and extend of contaminants on an abanadoned wood treatment site in the Province and remediation of the property is proceeding as required by the Saskatchewan Environment and Public Safety.

The Corporation's labour agreement with the IWA Canada Local 1-184 remains in effect until March 31, 1993.

Marketing

As reflected in the Introduction, market conditions declined below the levels experienced in 1990 resulting in lower mill nets for the year.

Housing starts remained low in North America which reduced the demand and market prices for forest products.

Manufacturing

The Plywood Mill operated normally through-out the year with no scheduled shut downs. The Sawmill at Carrot River was closed for a four week period for maintenance, however there was a 69% increase in production from 1990 with the addition of a small log line completed early in 1991.

Report on Operations

Hudson Bay Plywood Plant

Plant production was once again predominately softwood plywood with low volumes of hardwood plywood being produced. The mill operated on a continuous bases with plywood production up from 1990 levels of 68, 160 M 3/8 to 78,623 M 3/8 in 1991.

Employment averaged 163 hourly and 15 salaried employees for a total payroll of $6.5 Million.

Carrot River Sawmill/Planer Mill Complex

The sawmill operated on a two shift basis during the year and the planer mill on a three shift bases. The expansion of the operation was due to a small log line that went into production early in the year. This was made necessary with the small log residue deliveries from the Hudson Bay plywood logging operations. Total lumber production was up from 1990 level of 25,597 million fbm to 43,307 million fbm in 1991.

Employment averaged 113 hourly employees and 5 salaried employees. Total payroll was $3.8 million.

Woodlands

Logging operations in the Hudson Bay and Carrot River areas were very successful during the 1991 season, with special emphasis on harvesting Spruce Bud worm infested stands through out the region. This practise is very important in assiting the eradication of this destructive pest from our forests.

The Corporation harvested a total volume of (470,000) Four Hundred and Seventy Thousand cubic metres of softwood material to source the two mills, with residue materials from the operations delivered to other users.

Seven hundred hectares of forest land was prepared for tree planting in the spring of 1992 in cooperation with Forestry Canada. Plans are to contine and expand these very important silvicultural projects.

The Corporation continues to promote a safety program which will create a safer work environment in woodland's operations.

Financial

The Corporation recorded a loss of $3.5 million on consolidated sales of $23.1 million. Decreased revenues was a result of lower prices for both plywood and lumber prices from 1990 levels.

The total loss for the year of $3.5 million includes a $2.3 million provision for site restoration of an abandoned wood treatment site.

Capital expenditures for the year was $1.4 million. There were no outstanding loans at year end. Interest expense for the year was $268 thousand compared to nil in 1990.

The Outlook for 1992

There continues to be guarded optimism for the 1992 housing industry however, with interest rates decreasing to lower levels then those experienced in many years, the outlook is certainly much brighter and will depend to a large degree in consumer confidence returning in the North American Economy. Should this all materialize the forest industry will undoubtedly regain strengths in the coming months.

Mr. Dale Vizina
General Manager
Saskatchewan Forest Products Corporation

AUDITORS' REPORT

December 5, 1991

AUDITORS' REPORT

To the Members of the
Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1991 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at October 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Saskatoon, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note Reference	October 31 1991	October 31 1990
		(in thousands of dollars)	
ASSETS			
Current assets:			
Cash on deposit		$ 2,616	$ 5,034
Accounts receivable		2,646	2,395
Prepaid expenses		164	163
Inventories		4,585	3,088
		10,011	10,680
Property, plant and equipment	3	11,516	11,073
		$ 21,527	$ 21,753
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 4,679	$ 1,393
Province of Saskatchewan's equity			
Equity advances	4	40,200	40,200
Deficit		(23,352)	(19,840)
		16,848	20,360
		$ 21,527	$ 21,753

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Note Reference	Year ended October 31 1991	1990
		(in thousands of dollars)	
Revenue			
Sales of forest products		$ 23,111	$ 20,597
Expenses			
Operating costs		22,742	19,549
Interest on short-term loans		268	—
Depreciation and amortization		739	757
Selling, general and administrative		574	419
		$ 24,323	$ 20,725
Loss before provision for site restoration		(1,212)	(128)
Provision for site restoration	7	(2,300)	—
Loss for the year		(3,512)	(128)
Deficit, beginning of year		(19,840)	(19,712)
Deifict, end of year		$ (23,352)	$ (19,840)

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1991	1990
		(in thousands of dollars)	
Cash provided by (used in) operating activities			
Loss before provision for site restoration		$ (1,212)	$ (128)
Add charges to operations not requiring a current each payment			
Depreciation and amortization		739	757
Loss on sale of property, plant and equipment		58	6
		(415)	635
Net change in non-cash working capital balances related to operations		(763)	2,030
		(1,178)	2,665
Cash provided by (used in) investment activities			
Proceeds from sale of property, plant and equipment		186	187
Additions to property, plant and equipment	3	(1,426)	(1,332)
		(1,240)	(1,145)
Cash provided by (used in) financing activities			
Increase in short-term loans		6,000	—
Reduction of short-term loans		(6,000)	—
		—	—
Net increase (decrease) in cash during the year		(2,418)	1,520
Cash on deposit, beginning of year		5,034	3,514
Cash on deposit, end of year		$ 2,616	$ 5,034

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1991

1. Summary of significant accounting policies:

This summary of accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles -

These consolidated financial statements include the accounts of the corporation's wholly-owned subsidiary, Northern Forest Operations Ltd.

Inventories -

Inventories of logs and mill supplies are valued at the lower of cost and replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value. Average cost includes appropriate production overheads.

Property, plant and equipment -

Property, plant and equipment are stated at cost and are depreciated and/or amortized over their estimated useful lives primarily on the diminishing balance basis at the following rates:

Buildings	5-10%
Machinery and equipment	6.7-10%
Vehicles	15%
Site improvements	4%
Office equipment	10%
Roads and spur tracks	10%

2. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. The accounts of the corporation are included in the annual financial statements of Crown Investments Corporation of Saskatchewan. The corporation is a provincial Crown corporation and, therefore, neither it nor its wholly-owned subsidiary are subject to federal or provincial income tax.

3. Property, plant and equipment:

	1991	1990
Machinery and equipment	**$ 12,782,000**	**$ 12,182,000**
Buildings and site improvements	**3,533,000**	**3,379,000**
Land	**812,000**	**802,000**
Roads and spur tracks	**287,000**	**344,000**
	17,414,000	**16,707,000**
Less: Accumulated depreciation and amortization	**5,898,000**	**5,634,000**
	$ 11,516,000	**$ 11073,000**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1991

4. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances from Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. The deficit represents accumulated earnings and losses of the corporation since the date of the reorganization on November 1, 1977.

5. Contingencies:

There are various lawsuits and claims that are pending by and against the corporation. It is the opinion of management that final determination of these lawsuits and claims will not materially affect the financial position or the results of operations of the corporation. Any settlements resulting from the resolution of these matters will be accounted for as charges to operations in the period in which settlement occurs.

6. Related party transactions:

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

7. Provision for site restoration:

During the year, an independent study was completed regarding the restoration on one of the corporation's former treatment plant properties. The study estimated that restoration costs would be approximately $2,300,000. As a result, the corporation has accrued this amount although restoration has not commenced. Any subsequent recovery of this estimated amount will be treated as an unusual item in the applicable period.